

February 28, 2012

FOR YOUR INFORMATION

To: Mayor and Members of Council
From: Milton Dohoney, Jr., City Manager *MD*
Subject: The Development of The Banks (Mahogany's)

This document has been prepared to provide additional clarity around the Administration's approach to The Banks development, including the pending business opportunity that is proposed to be filled by Mahogany's. While The Banks development is a joint venture between the City and County, this explanation is meant only to illuminate the rationale and motivation of the City Administration.

Before specifically addressing certain aspects of the Mahogany's opportunity, it is important to provide some historical context that characterizes the acceleration of Phase 1 of the overall development. The Administration supported the viewpoint that success at The Banks would be achieved if we created a destination point that included a mix of offerings that attracted a wide range of tastes. By maximizing "the draw" it would facilitate the highest levels of customer patronage, making it financially successful for the businesses, thereby expanding the City's tax base. It would also serve to intensify a regional and national buzz about the transformation of Cincinnati. In short, to live up to its potential to be a success, The Banks needs to offer something for everyone.

The multi-year planning process, albeit necessary, also served to raise speculation over whether anything would actually be built on the riverfront. As each month passed, those sentiments only grew louder, prompting definitive action. After we held the groundbreaking, the development stalled after a point due to the deteriorating economy. Financial institutions refused to lend money, even for traditionally credit-worthy clients.

Consultation with the developer brought forth the notion of creating a loan pool of \$5.5 million (evenly split between the City/County) to assist the developer's capacity to secure tenant commitments. The loan pool enabled tenant improvements to be done, thereby getting The Banks open sooner rather than later. The alternative option was to wait for the economy to rebound, leaving no activity at The Banks, beyond apartment leasing, for an indeterminate period of time. Though the loan to the developer carried some risk, we felt it was a risk worth taking to jump-start the desired activity. This was approved by the prior City Council on December 8, 2010.

While we celebrated the one-by-one additions to The Banks as a mix of offerings took shape, it did not fulfill the array of tastes that was discussed from the beginning with the developer, including unique, local offerings. That same void was also referenced by respondents to the annual DCI customer survey, and was a topic of discussion at DCI Board meetings.

As Mahogany's surfaced as a possibility, the first level of vetting focused on their product line. Did the menu contain the quality for the price-point that was being charged? In addition to several visits by the City team, the Carter Dawson team also went to the Hamilton location to make an assessment. This type of vetting is consistent with that of the other tenants.

Principals from Mahogany's toured The Banks and had back-and-forth discussions with the developer to determine if everything was the right fit. Lease options were discussed by the parties. These talks did not include the City. This too is consistent with the process experienced by the other tenants at The Banks.

This is a small business loan, which is typically harder to get from traditional sources, particularly in this economy. A lot of work went into the process of determining the best way to structure the deal. The Administration focused on what it was going to take to get it done since there was full consensus that Mahogany's was part of the missing link we were pursuing. Once it was determined that the City would serve as the underwriter, Mahogany's was asked for the same type of information anyone else would have been asked to provide. The vetting process has never included asking the principals to submit to a criminal background check, nor did it in this case. The underwriting process does call for a credit background check and that was done. When the City is underwriting a small business transaction we typically ask National Development Council, our outside consultant, to also look at the deal. That too was done in this case.

Everyone acknowledged that there was a greater level of risk involved in this transaction so some personal guarantees were requested for the loan portion of the transaction. Those were confirmed. Title searches are typically not done until after the Council has approved the deal, and right before the property closes.

In each development deal that the Administration does, we respect the personal information that we review. The fact that not every detail of a person's profile is committed to a report is not an attempt to be less than forthcoming. Risk is always evaluated and at the end we make a professional determination whether to proceed. The principals we have interacted with in this deal have been completely transparent with the vetting process. Mrs. Rogers' product, presentation and adaptability complement the offerings at The Banks. Mr. Rogers, a 12-year employee of the Ford Motor Company, is a graduate of Florida A&M with a degree in economics.

The City Administration professionally evaluates each deal we do and the associated risk, which each deal has to some extent. The bottom line here is there is a consensus that this transaction will fill a long standing void in Downtown. The consensus is that the way this deal is structured there will be cash flow and enough business generated to repay the obligation of the loan. The funds of the grant go into the fit-up of the retail space, which will stay with the space regardless of the tenant. Through a determined and meticulous approach, those committed to creating a synergistic and inclusive environment at our waterfront have built the momentum we are experiencing. This deal continues that wave.

Based on the information that we have, the Administration believes the Mahogany's deal should advance.